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TAGS: EFIN TU
SUBJECT: Turkish Parliament Ratifies 2008 Budget

¶1. (U) Summary: The most significant aspect of Turkey's 2008 budget is the decrease in the primary surplus target to 5.5 percent of Gross Domestic Product (GDP). For five years, the Government of Turkey (GOT) has used a primary surplus target of 6.5 percent of GDP. In working to achieve the ambitious 6.5 percent target, the GOT was able to cut expenses, save more, and pay its debts ahead of schedule, thereby easing the debt-to-GDP ratio from more than 90 percent to slightly below 60 percent. For 2008, interest payments and social security transfers will continue to be the primary expenses. Indirect taxes, including value-added taxes and special consumption taxes on cigarettes and alcohol, will be the main sources of government revenue. Personal income tax receipts (5.3 percent of GDP) will significantly exceed corporate taxes (2 percent of GDP). End Summary.

¶2. (U) The GOT proposes a budget deficit of YTL 17.9 billion ($15.2 billion; $1 = YTL 1.17); 2.5 percent of GDP and 19.3 percent higher than the 2007 target. In 2008, the GOT plans to spend YTL 222.6 billion ($186.6 billion) and expects to collect YTL 204.6 billion ($172.3 billion). The 2008 budget indicates a primary surplus of YTL 38.0 billion ($31.9 billion) before debt service.

¶3. (U) The GOT has set a 2008 GDP target of YTL 716.6 billion ($602.2 billion). The budget also targets 2008 inflation at 4 percent and per capita income at $7,000. (The GOT was unsuccessful in reaching its 2007 inflation target of 4 percent; instead, it ended the year with 8.4 percent inflation.) The GOT estimates 2008 exports valued at $117 billion and imports valued at $182 billion. The 2008 budget assumes an average USD/YTL exchange rate of 1.37; with a 15 percent appreciation from the current level of 1.17. The GOT expects a 10.9 percent increase in corporate income tax collection and 10.0 percent in personal income tax collection. The 2008 budget includes a 7.6 percent hike in civil servant wages--well above the 4 percent inflation estimate.

¶4. (SBU) Reftel A describes anticipated energy shortfalls and the need to fill the gap in the short term with alternative, and more expensive, sources. Gas price increases will hit consumers but also hit the GOT, since it uses liquid natural gas to fire many of its electricity plants. These energy price hikes will make budget targets harder to achieve.

¶5. (U) The 2008 budget anticipates delaying enforcement of the social security law to June 2008 despite industry calls for more rapid implementation. The social security reform is significant for the long-term structural health of the Turkish economy and is a requirement under Turkey's IMF program.

¶6. (SBU) Comment: Turkey's IMF program will expire in May 2008 and the GOT and IMF are now considering what type of agreement might

follow. Without an IMF anchor, the GOT might feel more comfortable in cutting fiscal discipline and increasing spending. The lower primary surplus target of 5.5 percent could be a signal of negative change in the future. In the past five years, with a 6.5 percent target, the GOT has been successful in cutting inflation from 70 percent to 8.4 percent, lowering debt-to-GDP ratios, and maintaining stability. These impressive results were not obtained easily, and the GOT will have to maintain strict fiscal discipline to cut inflation further. Industry and trade officials are impatiently pushing for faster growth and more job creation, which would likely result in inflation increases. Unfortunately, Turkish business leaders are experts at operating under high-inflation conditions. End Comment.

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